

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5755

HIGHLINE COMMUNITY COLLEGE

Agency No. 652

July 1, 1995 Through June 30, 1996

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HIGHLINE COMMUNITY COLLEGE
Agency No. 652
July 1, 1995 Through June 30, 1996

Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at Highline Community College included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There were findings, which are listed in the Schedule of Findings following this Overview, for Highline Community College.

Brian Sonntag
State Auditor

November 6, 1996

HIGHLINE COMMUNITY COLLEGE
Agency No. 652
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Highline Community College Facilities And Operations Department Should Comply With State Regulations Applicable To The Sale Of Surplus State Property And Obtain Proper Authorization For Equipment Purchases

The Maintenance Shop of the Facilities and Operations Department sold scrap metal and purchased equipment and tools without following prescribed regulations and procedures.

Maintenance Shop personnel arranged for a local scrap metal dealer to pick up the scrap metal. Maintenance Shop personnel indicated that a credit for the value of the scrap metal was then issued in the name of the college to a local tool company. Maintenance Shop personnel then ordered and picked up tools and equipment from the tool company. The cost of the tools and equipment purchased was applied against the credit balance earned from the sale of scrap metal.

Records of these transactions were unauditable. No records or receipts for the weight of the scrap metal sold were obtained. We were unable to determine whether the college received an appropriate credit for the value of the scrap metal sold. Also, only minimal records of purchases of tools and equipment were maintained. We were unable to determine whether all tools and equipment purchased were in fact received by the college.

This process of disposing of salvageable scrap metal was used as a means to supplement budgeted Facilities and Maintenance Department funds and has been standard practice by Maintenance Shop personnel for at least five years.

Maintenance Shop personnel should have contacted the college's Central Services Department for the appropriate procedures for the sale of the scrap materials. The college asset disposal procedures require Central Services Department authorization. The college also has purchasing procedures which require purchases for the department be pre-authorized by the Director of Facilities and Operations and requested through the purchasing department.

RCW 28B.10.029 provides that:

- (1) An institution of higher education may exercise independently those powers otherwise granted to the director of general administration in chapter 43.19 RCW in connection with the purchase and disposition of all material, supplies and equipment . . . Property Disposition policies followed by institutions of higher education shall be consistent with policies followed by the department of general administration.

RCW 43.19.1919 prescribes the following:

The Division of Purchasing shall sell or exchange personal property belonging to the state for which the . . . educational institution having custody thereof has no further use, at public or private sale, and cause the moneys realized from the sale of any such property to be paid into the fund from which such property was purchased. The division of purchasing shall maintain a record of disposed surplus property, including date and method of disposal, identity of any recipient, and approximate value of the property.

The Department General Administration Title 236 WAC states that:

If the property to be disposed of is measured by weight, the successful bidder shall furnish to the custodian of the property, a certified weight ticket showing the gross tare and net weight of the shipment . . . Weighing shall take place at the certified public scale nearest to the point of pickup.

The OFM *Policies, Regulations, and Procedures* manual Section 6.2.2.1.9(e) provides:

Controls are to be established so that state property does not leave the possession of the state except under proper authorization.

The OFM *Policies, Regulations, and Procedures* manual Section 2.2.3.2.2 states:

Agency heads or authorized designees are responsible for authorizing all expenditures. Further, Section 2.2.3.2.3(a) provides that at a minimum, payment processing documentation should include evidence of authorization for purchase, receipt of goods or services, and approval for payment.

The OFM *Policies, Regulations, and Procedures* manual Section 2.2.4.1.2(a) states:

Cash receipts are to be deposited intact within 24 hours of receipt.

Section 2.2.4.1.2(b) states:

Local funds are to be deposited in qualified public depositories located in this state.

Failure to comply with college and state regulations was caused by Maintenance Shop personnel's apparent disregard for college and state policy regarding the disposal of assets and the purchase of tools and equipment.

By failing to follow college and state policies for the proper disposal of state assets and purchasing procedures, the college may not be properly safeguarding state assets, disposal of surplus property may not be properly authorized, and college purchasing procedures may be circumvented. Furthermore, the college risks that a theft or misappropriation of these assets may occur and not be detected in a timely manner.

We recommend the Facilities and Operations Department comply with state regulations applicable to the sale of surplus state property and obtain proper authorization for department equipment purchases.

Auditee's Response

In March of 1996, it was discovered by the Facilities and Operations Department management that Maintenance Shop personnel had been selling scrap metal and purchasing equipment and tools without following prescribed regulations and procedures. After an unsuccessful attempt to get information from the Maintenance Supervisor regarding this practice, Facilities and Operations Department management notified the Vice President of Administration who contacted the state auditor.

We agree with the auditor's finding and have met with the individuals involved in the transactions. We are instituting the following procedures immediately in Facilities and Operations Department:

- 1) All dispositions of scrap metal shall be done within the OFM Guidelines.*
- 2) All expenditures will have proper authorization, including the signature of either the Director of Facilities or the Associate Director of Facilities.*
- 3) All purchasing will follow the college's written purchasing procedures.*
- 4) No personnel except for the Director or Associate Director will handle cash receipts.*

Auditor's Concluding Remarks

We appreciate the actions taken by the college. We will review these matters during the course of our next audit.

2. Highline Community College Should Implement Controls Over Small And Attractive Assets And Comply With State Regulations

Highline Community College does not have adequate controls to account for small and attractive assets in accordance with state regulations.

- a. The college developed a policy to identify and tag small and attractive assets, however, adequate controls were not implemented to ensure that these assets were properly added to and deleted from agency property records.

For example, we traced 16 small and attractive items to the property records. We found that 6 items were either not recorded or were recorded to the wrong physical location in the records.

Furthermore, the college did not have a mechanism in place to ensure disposal of small and attractive assets was recorded.

The State of Washington Office of Financial Management's (OFM) *Policies, Regulations, and Procedures* manual Section 3.1.2.2.7 states:

Small and attractive fixed assets are to be considered inventoriable assets and should be carried on the property records of the agency.

Section 3.1.2.2.12 states:

Fixed assets should be removed from the property records when disposed of.

College management did not assign responsibility for recording additions and deletions to the small and attractive inventory property records.

- b. The college did not conduct a physical inventory of all inventoriable assets during 1996. Their last physical inventory was conducted during the summer of 1994.

The State of Washington Office of Financial Management's (OFM) *Policies, Regulations, and Procedures* manual Section 3.1.2.2.11 states:

Agencies are to initiate and document an inventory program to ensure that every inventoriable fixed asset is subject to a physical count or verification every two years.

Management stated that because of staffing limitations a full physical inventory could not be planned until 1997.

By failing to properly account for all inventoriable assets, and not taking a required physical inventory, the college may not be properly safeguarding state assets and risks that a theft or misappropriation of these assets might not be detected in a timely manner.

We recommend Highline Community College implement controls over small and attractive assets and comply with state regulations.

Auditee's Response

The College has conducted a risk assessment of the items listed in our small and attractive inventory, and evaluated the risks involved in not including many items which produced a more manageable inventory. We revised the small and attractive inventory procedure to include the proper tracking and disposal of these assets. The audit responsibility has been consolidated and assigned to the Central Services Department. The department will conduct a physical inventory in 1997.

Auditor's Concluding Remarks

We appreciate the actions taken by the college. We will review these matters during the course of our next audit.